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THE MORAL SOURCES OF CAPITALISM

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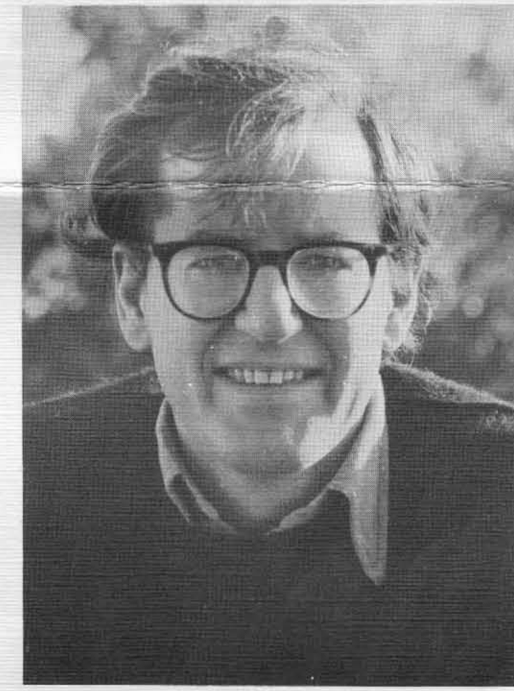

"Businessmen are bastards": This crude view of men of commerce, once famously pronounced by President John F. Kennedy, sums up the sentiments of socialist thinkers in America and around the world, from Jane Fonda to the remaining followers of the late Chairman Mao. In fact, the idea that businessmen are bastards is such a cliché among the progressive and enlightened men of the left that most of them would be hurt and startled if a businessman responded by calling them the bigots that they objectively are.

Early in 1980, however, these same words were vehemently uttered by a conservative professor of economics at a major American college. Yet conservatives are considered to be the friends of business. In fact, this economist in particular was wearing a handsome Adam Smith necktie and imagined himself to be staunchly defending private enterprise at the very time he made his rude remark about businessmen.

What is most extraordinary about this economist's view is not its extremity, vehemence, or apparent incongruity, but the fact that it was a perfectly ordinary statement for such a man to make. It sums up what has been the prevailing attitude of the leading defenders of free enterprise ever since the time of Adam Smith. Although Smith himself did not use such bawdy language, he insisted that businessmen were in general an unattractive lot who "seldom gather together except to conspire against the public interest." According to Smith the motive force of a capitalist economy is self-concern, which is a more polite way of depicting what a leftist would call avarice or greed. "Not from benevolence," said Smith, "do we expect our bread from the baker" but from self-interest. "As by an invisible hand," Smith immortally maintained, these individual acts of avarice flow together to promote the general welfare, even though few of the businessmen are concerned with any aim beyond their own enrichment.

im•pri•mis (ĭm-prī-mĭs) adv. In the first place. Middle English, from Latin in primis, among the first (things). . .

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These arguments of Adam Smith, espoused in *The Wealth of Nations,* the masterwork of capitalist economics, recur in various forms throughout the literature of free enterprise and lend to many of these writings a strangely anti-business cast. The general idea is that businessmen are useful sorts but you wouldn't want your daughter to marry one. Just as English aristocrats still sometimes express disdain for people "in trade," so American intellectuals, even on the right, often depict capitalists as crude, boorish, and predatory figures.

Although one might suppose that such men should be kept on a short reign by government, the conservatives argue on the contrary that governments should keep out of the fray and allow the disciplines of the free market to keep the predators in line. In essence, these economists answer President Kennedy by saying, "Yes, businessmen are bastards, but the best thing to do is let them loose, to fight it out among themselves, and may the best bastard win."

Needless to say, conservative economists offer many other, more sophisticated arguments against the growth of the state. Most of what they say about the virtues of free markets is luminously true. Nonetheless, their essential view of the nature and motivation of capitalists, inherited from Adam Smith, is insidiously false and fails to explain in any convincing way the sources of economic growth and progress. It just won't do any longer to suggest that businessmen are bad guys, or ambitious dolts, or self-serving money grubbers, and then conclude that if they are given maximum freedom, they will build the new Jerusalem: a good and bountiful society. Capitalism needs no such labored and paradoxical defense. The fact is that capitalism is good and successful not because it miraculously transmutes personal avarice and ambition into collective prosperity but because it calls forth, propagates, and relies upon the best and most generous of human qualities.

Capaitalism begins with giving. This is a growing theme of "economic anthropology," from Melville Herskovits's pioneering book by that name to Marvin Harris's *Cannibals and Kings*. The capitalists of primitive society were tribal leaders who vied with one another in giving great feasts. Similarly, trade began with offerings from one family to another or from one tribe to its neighbor. The gifts, often made in the course of a religious rite, were presented in hopes of an eventual gift in return. The compensation was not defined beforehand. But in the feasting process it was expected to be a return with interest, as another "big man," or *mumi* as he was called among the Siuai in the Solomon Islands, would attempt to excel the offerings of the first.

Harris describes the process:

> A young man proves himself capable of becoming a *mumi* by working harder than everyone else and by carefully restricting his own consumption of meat and coconuts. Eventually, he impresses his wife, children and near relations with the seriousness of his intentions, and they vow to help him prepare for his first feast. If the feast is a success, his circle of supporters widens and he sets to work readying an even greater display of generosity. He aims next at the construction of a men's clubhouse, and if this is also a success his circle of supporters—people willing to work for the feast to come—grows still larger and he will begin to be spoken of as a *mumi*.... Even though larger and

larger feasts mean that the *mumi's* demands on his supporters become more irksome, the overall volume of production goes up....

Helen Codere describes potlatching, a similar sequence of work and saving, capital accumulation and feasting, performed among the Kwakiutl of the northwestern United States: "The public distribution of property by an individual is a recurrent climax to an endless series of cycles of accumulating property—distributing it in a potlatch—being given property—

again accumulating and preparing." The piles of food and other gifts and ceremonial exchanges could mount to dumbfounding quantities. One South Sea offering mentioned by Herskovits consisted of 10,000 coconuts and ten baskets of fish.

These competitions in giving are contests of altruism. A gift will only elicit a greater response if it is based on an understanding of the needs of others. In the most successful and catalytic gifts, the giver fulfills an unknown need or desire in a surprising way. The recipient is startled and gratified by the inspired and unexpected sympathy of the giver and is eager to repay him. In order to repay him, however, the receiver must come to understand the giver. Thus the contest of gifts leads to an expansion of human sympathies. The circle of giving (the profits of the economy) will grow as long as the gifts are consistently valued more by the receivers than by the givers.

What the tribal givers were doing, by transcending barter, was to invent a kind of money: a mode of exchange that by excluding exact contractual planning allowed for freedom and uncertainty. Money consists of liabilities, debts, or promises. By giving someone a dollar, you both acknowledge a debt to him of a certain value, and you pass on to him an acknowledgement of debt given to you by someone else. But the process has to start somewhere, with a giver and a gift, a feast and a *mumi,* an investment and an investor.

By giving a feast, the *mumi* imposed implicit debts on all his guests. By attending it, they accepted a liability to him. Through the gifts or investments of primitive capitalism, man created and extended obligations. These obligations led to reciprocal gifts and further obligations in a growing fabric of economic creation and exchange, with each giver hoping for greater returns but not assured of them, and with each recipient pushed to produce a further favor. This spreading out of debts could be termed expanding the money supply. The crucial point is that for every liability (or feeling of obligation on the part of the guest), there was a previous asset (meal) given to him. The *mumi,* as a capitalist, could not issue demands or impose liabilities or expand money without providing commensurate supplies. The demand was inherent in the supply—in the meal.

The next step above potlatching was the use of real money. The invention of money enabled the pattern of giving to be extended as far as the reach of faith and trust—from the *mumi's* tribe to the world economy. Among the most important transitional devices was the Chinese *Hui*. This became the key mode of capital formation for the overseas Chinese in their phenomenal successes as tradesmen and retailers everywhere they went, from San Francisco to Singapore. A more sophisticated and purposeful development of the potlatching principle, the *Hui* began when the organizer needed money for an investment. He would raise it from a

group of kin and friends and commit himself to give a series of ten feasts for them. At each feast a similar amount of money would be convivially raised and given by lot or by secret bidding to one of the other members. The rotating distribution would continue until every member had won a collection. Similar systems, called the *Ko* or *Tanamoshi,* created savings for Japanese; and the West African *Susu* device of the *Yoruba,* when transplanted to The West Indies, provided the capital base for Caribbean retailing. This mode of capital formation also emerged prosperously among West Indians when they migrated to American cities. All these arrangements required entrusting money or property to others and awaiting returns in the uncertain future.

That supply creates its own demand is a principle of classical economics called Say's Law. It has come to be expressed, and refuted, in many interesting technical forms. But its essential point is potlatching. Capitalism consists of providing first and getting later. The demand is implicit in the supply. Without a monetary economy, such gifts were arrayed in expectation of an immediate profit in prestige and a later feast of interest, and they could be seen as a necessary way to escape the constraints of barter, to obviate the exact coincidence of wants and values required by simple trading. In most cases, the feasts and offerings were essentially entrepreneurial. They entailed the acquisition of goods at a known cost with the intention of acquiring in exchange —in this case, over an extended period—goods of unknown value. As devices of savings and investment, they depended for success on the continued honesty and economic returns of all members. The entrepreneurs succeed only to the extent they are sensitive to the needs of others, and to the extent that others succeed. Altruism is the essence of capitalism.

Capitalist production entails faith—in one's neighbors, in one's society, and in the compensatory logic of the cosmos. Search and you shall find, give and you will be given unto, supply creates its own demand. It is this cosmology, this sequential logic, that essentially distinguishes the free from the socialist economy. The socialist economy proceeds from a rational definition of needs or demands to a prescription of planned supplies. In a socialist economy, one does not supply until the demands have already been determined and specified. Rationality rules, and it rules out the awesome uncertainties and commensurate acts of faith that are indispensable to an expanding and innovative system.

The gifts of advanced capitalism in a monetary economy are called investments. One does not make gifts without some sense, possibly unconscious, that one will be rewarded, whether in this world or the next. Even the Biblical injunction affirms that the giver will be given unto. The essence of giving is not the absence of all expectation of return, but the lack of a predetermined return. Like gifts, capitalist investments are made without a predetermined return.

These gifts or investments are experimental in that the returns to the giver are unknown; and whether gains or losses, they are absorbed by him. Because the vast majority of investments fail, the moment of decision is pregnant with doubt and promise and suffused to some degree with faith. Because the ventures are experiments, however, even the failures in a sense succeed, even the waste is often redeemed. In the course of time, perhaps even with the passage of generations, the failures accumulate as new knowledge, the most crucial kind of capital, held by both the entrepreneurs themselves and the society at large.

This new knowledge is a deeper kind than is taught in schools or acquired in the controlled experiments of social or physical science, or gained in the experience of socialist economies. For entrepreneurial experiments are also adventures, with the future livelihood of the investor at stake. He participates with a heightened consciousness and passion and an alertness and diligence that greatly enhance his experience of learning. The experiment may reach its highest possibilities, and its crises and surprises may be exploited to the utmost.

This motivational advantage will often decide the success or failure of enterprises or nations otherwise equally endowed. Harvey Leibenstein of Harvard has presented a large body of evidence which shows that the key factor in productivity differences among firms and between countries is neither the kind of allocational efficiency stressed in economic texts nor any other measurable input in the productive process. The differences derive from management, motivation, and spirit; from a factor he cannot exactly identify but which he calls *X-efficiency*. He quotes Tolstoy in *War and Peace:*

> Military science assumes the strength of an army to be identical to its numbers.... [In fact it] is the product of its mass and some unknown x...the spirit of the army.... To define and express the significance of this unknown factor...is a problem for science...only solvable if we cease arbitrarily to substitute for the unknown x itself the conditions under which that force becomes apparent—such as the commands of the general, the equipment employed and so on...and if we recognize this unknown quantity in its entirety as being the greater or lesser desire to fight and to face danger.

In other words, measurable inputs, such as those that can be calculated in a planned economy, do not determine output. Leibenstein shows that productivity differences between workers doing the same job in a particular plant are likely to vary as much as four to one, that differences as high as 50 percent can arise between plants commanding identical equipment and the same size labor force that is paid identically. Matters of management, motivation, and spirit—and

their effects on willingness to innovate and seek new knowledge—dwarf all measurable inputs in accounting for productive efficiency, both for individuals and groups and for management and labor. A key difference is always in the willingness to transform vague information or hypotheses into working knowledge: willingness, in Tolstoy's terms, transferred from the martial to the productive arts, "to fight and face danger," to exert efforts and take risks.

Socialism presumes that we already know most of what we need to know to accomplish our national goals. Capitalism is based on the idea that we live in a world of unfathomable complexity, ignorance, and peril, and that we cannot possibly prevail over our difficulties without constant efforts of initiative, sympathy, discovery, and love. One system maintains that we can reliably predict and elicit the outcomes we demand. The other asserts that we must give long before we can know what the universe will return. One is based on empirically calculable human power; the other on optimism and faith. These are the essential visions that compete in the world and determine our fate.

When faith dies, so does enterprise. It is impossible to create through the mechanisms of rational self-interest a system of collective regulation and safety that does not finally deaden the moral sources of the willingness to face danger and fight, that does not dampen the spontaneous flow of gifts and experiments which extend the dimensions of the world and the circles of human sympathy.

Walter Lippmann was much closer to the truth of the system than many of its more conservative apologists when in 1936, in the midst of the Great Depression, he wrote that capitalism is based on "an ideal that for the first time in human history" gave men "a way of producing wealth in which the good fortune of others multiplied their own." At long last "the Golden Rule was economically sound...and for the first time men could conceive a social order in which the ancient moral aspiration of liberty, fraternity, and equality was consistent with the abolition of poverty and the increase of wealth." Once "the worldly policy was to be predatory. The claims of the spirit were otherworldly." But with the rise of capitalism "the vista was opened at the end of which men could see the possibility of the good society on this earth. At long last the ancient schism between the world and the spirit...was potentially closed."

To defend capitalism—even to understand it—you have to comprehend that businessmen are not bastards, but the heroes of the modern age—crucial vessels of those generous and creative impulses that give hope to an ever more populous humanity in overcoming its continuing scarcities and conflicts. In a world always divided in part between the givers and the takers, businessmen are among the most persistent and ingenious of donors and all of us who benefit should be thankful.

How is it then that the contrary view is so prevalent in the world—that most observers of capitalism see businessmen not as givers but as takers? There are many reasons, including envy, ignorance, and the corruption of many businessmen by the snares of the state. But the key source of confusion is what can be called the materialist fallacy: the belief that wealth consists chiefly not of human knowledge and creativity, generosity and love, but of a limited fund of "natural resources," always in danger of running out, and the accumulated inheritance of physical capital embodied in farms, factories, and machines.

This belief is one of the oldest of human delusions, from the period of empire when men imagined that wealth was land, to the era of mercantilism when they fantasized that it was gold, won through a favorable balance of trade, and continuing on to today when the world believes that wealth is oil, and grasps at real estate and gold as well. Contemporary economists, liberal and conservative, make a similar error when they define wealth as physical property and capital assets and measure it in quantitative terms.

As long experience should show us, however, resources and machines are nearly useless without entrepreneurs and willing workers. Iran before the revolution was replete with oil and factories, but all their resources availed them little, because they lacked in the generosity and discipline of entrepreneurs. Hong Kong and Taiwan have little material endowment, but their businessmen provide wealth for the world. Japan and Germany possess few natural resources and saw much of their material capital destroyed during World War II, but they have thrived by liberating enterprise. Throughout history, most of mankind has lived cramped and impoverished lives in materially affluent countries because of an absence of the metaphysical capital that is most crucial to progress: the trust in others, the hope for the future, the faith in a providential God that allows freedom and prompts the catalytic gifts of capitalism.

Without these essentially spiritual dimensions, the success of capitalism is inexplicable except where it is already occurring. The great flaw of the bastard capitalism theory is that it cannot explain economic growth under the conditions where it is most needed: a depressed and impoverished economy in which there is little to take, and as John Kenneth Galbraith has written, the most "rational" course is to accept one's poverty rather than fight hopelessly against it. This perception has prompted Galbraith and many other leftist thinkers to give up on further world development and predict "lean years" of scarcity, entropy and decay. A blindness to the spiritual sources of wealth

thus is leading many "progressive" writers into a strange revival of the dismal science of 19th century economics. No Ricardian law of rents, no Malthusian cycle of population was ever more coldly remorseless in its rejection of the dreams of the poor than Richard Barnet's "entropy theory" or Barry Commoner's "closing circle" of ecological limits to growth.

Adam Smith's self-interest, however, is little more persuasive than Marxist ideas of exploitation and taking as an explanation of capitalist prosperity. The pursuit of self-interest would lead not to the always risky and unpromising ventures of capitalism in an uncertain and perilous world but to the quest for safety and security in an ever growing welfare state. The only way to escape the vicious cycles of poverty is through the expanding circles of creative giving, the investments of brave men with hope for the future, trust in their fellow men and faith in providence. This impulse of philanthropy is the prime gift of business success.

Capitalism can be summed up in the language of scripture: *Give and you will be given unto, search and you shall find.... Cast your bread upon the waters and it will return to you many fold*. Or even in the language of economics: *supply creates its own demand*. Capitalism is not impugned but affirmed in the Biblical parables: the parable of the talents, in which Jesus praises the man who invests and multiplies his money, or even in the parable of the rich man, who is told to give away rather than hoard his wealth.

"Where your treasure is, so your heart is also." It is Marxism and statism that are based on the materialist fallacy, that believe in the treasure of things. It is capitalism that is based on the treasure of ideas and spirit. To the extent that capitalists are bastards—predatory and materialistic, hoarding and miserly, hedonistic and prodigal—they betray the essence of capitalism and balk its growth. The fable of Midas is the story not of perils and contradictions of capitalist wealth but of the pitfalls of materialism itself. The real capitalists have the anti-Midas touch, turning the hoards of gold and liquidity, through an alchemy of creative spirit, into the productive capital of real wealth. And the foundation of wealth is always giving, not taking. The deepest truth of capitalism is faith, hope and love.

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